

Required Supplementary Stewardship Information

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For the Year Ended September 30, 2004

Investment in Human Capital

The U.S. Department of Education executes programs under the Education, Training, Employment, and Social Services function established by the Congress in the Budget Act of 1974. This report presents Human Capital activity related to the execution of the Department's congressionally approved budget and programs.

The Department's mission is to ensure equal access to education and to promote educational excellence throughout the nation. To carry out this mission, the Department works in partnership with states, schools, communities, institutions of higher education, and financial institutions—and through them, with students, teachers and professors, families, administrators, and employers. Key functions of the partnership are as follows:

- Leadership to address critical issues in American education.
- Grants to education agencies and institutions to strengthen teaching and learning and to prepare students for citizenship, employment in a changing economy, and lifelong learning.
- Student loans and grants to help pay for the costs of postsecondary education.
- Grants for literacy, employment, and self-sufficiency training for adults.
- Monitoring and enforcement of civil rights to ensure nondiscrimination by recipients of federal education funds.
- Support for statistics, research, development, evaluation, and dissemination of information to improve educational quality and effectiveness.

Human Capital Programs

Federal investment in Human Capital comprises those expenses for general public education and training programs that are intended to increase or maintain national economic productive capacity. The Department of Education's Human Capital programs are administered by the following offices: Elementary and Secondary Education, Safe and Drug-Free Schools,

Innovation and Improvement, Postsecondary Education, Federal Student Aid, Special Education and Rehabilitative Services, Institute of Education Sciences, English Language Acquisition, and Vocational and Adult Education. A list of key programs for each office is outlined below.

Office of Elementary and Secondary Education

The Office of Elementary and Secondary Education provides leadership, technical assistance, and financial support to state and local educational agencies for maintenance and improvement of preschool, elementary, and secondary education. Programs administered by this office include the following:

- **Improving the Academic Achievement of the Disadvantaged (Title I) Programs** provide financial assistance to state and local educational agencies and other institutions to support services for children in high-poverty schools, institutions for neglected and delinquent children, homeless children, and certain Indian children.
- **The Impact Aid Program** provides financial assistance for the maintenance and operations of school districts in which the federal government has acquired substantial real property. It provides direct assistance to local educational agencies that educate substantial numbers of federally connected pupils (children who live on or whose parents work on federal property).
- **Migrant Education Programs** support high-quality comprehensive educational programs for migratory children and youth to address disruptions in schooling and other problems that result from repeated moves.
- **Improving Teacher Quality State Grants (Title II)** provide funds, on a formula basis, to increase the academic achievement of students by ensuring that all teachers are highly qualified to teach.

Office of Safe and Drug-Free Schools

The Office of Safe and Drug-Free Schools supports efforts to create safe schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well-being of students, and teach students good citizenship and character. Programs administered by this office include the following:

- **Health, Mental Health, and Physical Education** programs promote the health and well-being of students and families as outlined by Title IV, Safe and Drug-Free Schools and Communities Act.
- **Drug and Violence Prevention—State and National Programs** are designed to develop and maintain safe, disciplined, and drug-free schools.

Office of Innovation and Improvement

The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools, and community and nonprofit organizations. The office leads the movement for greater parental options and information in education. Programs administered by this office include the following:

- **The Charter Schools Program** supports the planning, development, and initial implementation of charter schools. Charter schools provide enhanced parental choice and are exempt from many statutory and regulatory requirements. In exchange for increased flexibility, charter schools are held accountable for improving student academic achievement.
- **The Fund for the Improvement of Education** provides authority for the Secretary to support nationally significant programs to improve the quality of elementary and secondary education at the state and local levels and help all students meet challenging state academic content standards and student achievement standards. Funds also support “Programs of National Significance” through grants to state and local educational agencies, nonprofit organizations, and other public

and private entities that have been identified by the Congress in appropriations legislation.

Office of Postsecondary Education

The Office of Postsecondary Education formulates policy and coordinates programs that assist postsecondary educational institutions and students pursuing a postsecondary education. This office administers the following programs:

- **The Fund for the Improvement of Postsecondary Education** provides grants to colleges and universities to promote reform, innovation, and improvement in postsecondary education.
- **Higher Education Programs (HEP)** administer discretionary funds and provide support services that improve student access to postsecondary education and foster excellence in institutions of higher education. The TRIO programs, under HEP, are outreach and support programs targeted to help disadvantaged students progress from middle school to postbaccalaureate programs.

Office of Federal Student Aid

The Office of Federal Student Aid administers need-based financial assistance programs for students pursuing postsecondary education. The Department makes available federal grants, loans, and work-study funding to eligible undergraduate and graduate students. The Department’s two major loan programs are as follows:

- **The Federal Family Education Loan Program** operates with state and private nonprofit Guaranty Agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students.
- **The William D. Ford Direct Student Loan Program** is a direct lending program in which loan capital is provided to students by the federal government through borrowings from the U.S. Treasury.

Office of Special Education and Rehabilitative Services

The Office of Special Education and Rehabilitative Services supports programs that assist in educating children with special needs. It provides for the rehabilitation of youth and adults with disabilities and supports research to improve the lives of individuals with disabilities. This office includes three components:

- **The Office of Special Education Programs** administers programs and projects relating to the education of all children, youth, and adults with disabilities from birth through age 21 by providing leadership and financial support to assist states and local districts. The largest program is the Grants to States under the Individuals with Disabilities Education Act.
- **The Rehabilitation Services Administration** oversees programs and projects related to vocational rehabilitation and independent living of individuals with disabilities to increase their employment, independence, and integration into the community. The largest program is the Vocational Rehabilitation State Grants.
- **The National Institute on Disability and Rehabilitation Research** provides leadership and support for a comprehensive program of research related to the rehabilitation of individuals with disabilities.

Institute of Education Sciences

The Institute of Education Sciences is the main research arm of the Department. It compiles statistics; funds research, evaluations, and dissemination; and provides research-based guidance to further evidence-based policy and practice. Its three operational divisions are as follows:

- **The National Center for Education Research (NCER)** supports research that contributes to the solution of significant education problems in the United States. Through its research initiatives and the national research and development centers, NCER supports research activities that examine the effectiveness of educational programs,

practices, and policies, including the application of technology to instruction and assessment. The goal of its research programs is to provide scientific evidence of what works and for whom and under what conditions.

- **The National Center for Education Evaluation and Regional Assistance** is responsible for conducting evaluations of the impact of federal programs and disseminating information from evaluation and research, and for providing technical assistance to improve student achievement. The National Library of Education, established within the center, is the largest federally funded library devoted entirely to education and provides services in three areas: reference and information services, collection and technical services, and resource sharing and cooperation.
- **The National Center for Education Statistics** is responsible for collecting, analyzing, and reporting education information and statistics on the condition and progress of education at the preschool, elementary, secondary, postsecondary, and adult levels, including data related to education in other nations. Among its data collection efforts is the National Assessment of Educational Progress.

Office of English Language Acquisition

The Office of English Language Acquisition administers programs designed to enable students with limited English proficiency to become proficient in English and meet challenging state academic content and student achievement standards. Programs from this office include the following:

- **The State Formula Grant Program** is designed to improve the education of limited English proficient children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program provides enhanced instructional opportunities for immigrant children and youths.

- **The National Professional Development Program** provides grants to institutions of higher education in partnership with local educational agencies or state educational agencies to improve classroom instruction for English language learners and to improve the qualifications of teachers of English language learners and other educational personnel.
- **The Foreign Language Assistance Program** provides grants to pay for the federal share of the cost of innovative model programs providing for the establishment, improvement, or expansion of foreign language study for elementary and secondary school students.

Office of Vocational and Adult Education

The Office of Vocational and Adult Education provides funds for vocational-technical education for youth and adults. Most of the funds are awarded as grants to state educational agencies. This office administers the following and other programs:

- **Perkins Vocational and Technology Education State Grants** help state and local schools offer programs to develop the academic, vocational, and technical skills of students in high schools, community colleges, and regional technical centers.

Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 87 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitative services. While spending for entitlement programs is usually a function of the authorizing statutes creating the programs and is not generally affected by appropriations laws, spending for discretionary programs is decided in the annual appropriations process. Most Department programs are discretionary, for example, Impact Aid, Vocational Education, Special Education, Pell Grants, Research, and Statistics.

Program Outputs

Education, in the United States, is primarily a state and local responsibility. States and communities, as well as public and private organizations, establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominantly state and local role. Of the estimated \$852 billion being spent nationwide on education at all levels for the school year 2003–04, about 90 percent comes from state, local, and private sources. The federal contribution to national education expenditures is about \$85 billion. The federal contribution includes education expenditures not only from the Department, but also from other federal agencies such as the Department of Health and Human Services' Head Start Program and the Department of Agriculture's School Lunch Program. The Department's \$67.0 billion appropriation is about 7.9 percent of total education expenditures and about 2.9 percent of the federal government's \$2.3 trillion budget in fiscal year 2004.

The Department currently administers programs affecting every area and level of education. The Department's elementary and secondary programs annually serve 14,000 school districts and more than 54 million students attending over 93,000 public schools and more than 27,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 9.5 million postsecondary students.

While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. In fact, the Department's staff of approximately 4,400 is nearly 40 percent below the 7,528 employees who administered federal education programs in 1980, when the Department was created. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to less than two percent of the Department's budget. This means that the Department delivers about 98 cents on the dollar in education assistance to states, school districts, postsecondary institutions, and students.

Summary of Human Capital Expenses

(Dollars in Millions)	2004	2003	2002	2001	2000
Federal Student Aid Expense					
Direct Loan Subsidy	\$ (543)	\$ 4,716	\$ 877	\$ 1,307	\$ (3,933)
Guaranteed Loan Subsidy	8,516	2,509	3,988	(314)	295
Grant Programs	14,943	13,836	12,256	10,812	8,929
Salaries & Administrative	186	179	207	249	450
Subtotal	23,102	21,240	17,328	12,054	5,741
Other Departmental					
Elementary and Secondary Education	21,188	19,493	16,127	13,851	13,768
Special Education & Rehabilitative Services	12,687	11,529	9,906	8,590	8,065
Other Departmental Programs	5,160	4,828	4,531	3,893	3,962
Salaries & Administrative	448	395	472	341	293
Subtotal	39,483	36,245	31,036	26,675	26,088
Grand Total	\$62,585	\$57,485	\$48,364	\$38,729	\$31,829

Program Outcomes

Education is the stepping-stone to higher living standards for American citizens. Education is key to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

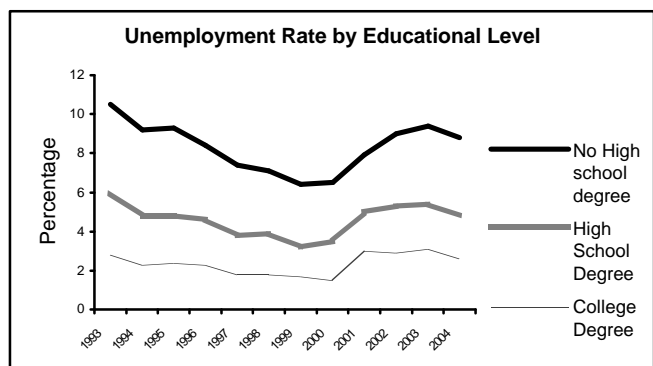
Economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Recently, both individuals and society as a whole have placed increased emphasis on educational attainment as the workplace has become increasingly technological and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in

general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of completing high school and investing in postsecondary education.

Unemployment rate. Persons with lower levels of educational attainment were more likely to be unemployed than those who had higher levels of educational attainment. The 2004 unemployment rate for adults (25 years old and over) who had not completed high school was 8.8 percent compared with 4.8 percent of those with four years of high school and 2.6 percent for those with a bachelor's degree or higher. Younger people with high school diplomas tended to have higher unemployment rates than persons 25 and over with similar levels of education.



Annual Income. For 2004, the median annual income for *adults* (25 years and over) varied considerably by education level. Men with a high school diploma earned \$32,968, compared with \$59,072 for men with a college degree. Women with a high school diploma earned \$25,532 compared with \$44,668 for women with a college degree. Men and women with college degrees earned 71 percent more than men and women with high school diplomas. Earnings for women with college degrees have increased by 43 percent since 1979, while those of male college graduates have risen 26 percent. These returns of investing in education directly translate into the advancement of the American economy as a whole.

